

SEAL BEACH REDEVELOPMENT AGENCY
SEAL BEACH, CALIFORNIA

Financial Statements

Year ended June 30, 2009

(with Independent Auditors' Report Thereon)

SEAL BEACH REDEVELOPMENT AGENCY

Financial Statements

Year ended June 30, 2009

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Board of Directors
Seal Beach Redevelopment Agency
Seal Beach, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Seal Beach Redevelopment Agency (Agency), a component unit of the City of Seal Beach, California as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Seal Beach Redevelopment Agency for the year ended June 30, 2008, and in our report dated December 19, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2009, and the respective changes in financial position of the Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented the *management's discussion and analysis* that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our *testing* of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
December 18, 2009

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SEAL BEACH REDEVELOPMENT AGENCY

Statement of Net Assets

June 30, 2009

(With comparative data for 2008)

| | Governmental Activities | |
|---|-------------------------|--------------------|
| | 2009 | 2008 |
| Assets: | | |
| Cash and investments (note 2) | \$ 6,431,355 | 5,060,570 |
| Cash and investments with fiscal agent (note 2) | 740,738 | 761,273 |
| Receivables: | | |
| Accounts | 2,602 | 5,228 |
| Taxes | 13,089 | 2,222 |
| Loans (note 3) | 1,783,229 | 1,861,571 |
| Capital assets (note 5): | | |
| Land | 403,192 | 403,192 |
| Other capital assets, net | 683,608 | 729,203 |
| Total assets | <u>10,057,813</u> | <u>8,823,259</u> |
| Liabilities: | | |
| Accounts payable and accrued liabilities | 19,592 | 38,881 |
| Interest payable | 108,189 | 114,988 |
| Long-term liabilities (notes 6): | | |
| Due within one year | 422,081 | 405,653 |
| Due in more than one year | <u>6,078,775</u> | <u>6,500,856</u> |
| Total liabilities | <u>6,628,637</u> | <u>7,060,378</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | 995,944 | 1,025,886 |
| Restricted for: | | |
| Low and moderate housing | 3,482,917 | 3,400,233 |
| Unrestricted | <u>(1,049,685)</u> | <u>(2,663,238)</u> |
| Total net assets | <u>\$ 3,429,176</u> | <u>1,762,881</u> |

See accompanying notes to the basic financial statements.

SEAL BEACH REDEVELOPMENT AGENCY

Statement of Activities

Year ended June 30, 2009

(With comparative data for 2008)

| | | Program Revenues | | |
|---------------------------------|-------------------|------------------|--------------------------|--------------------------|
| | | Charges for | Operating | Capital |
| | Expenses | Services | Contributions and Grants | Contributions and Grants |
| Governmental activities: | | | | |
| Low and moderate income housing | \$ 47,786 | - | - | - |
| Community development | 507,146 | - | - | - |
| Interest and fiscal charges | <u>337,420</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total governmental activities | <u>\$ 892,352</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| General revenues: | | | | |
| Taxes: | | | | |
| Tax increment | | | | |
| Investment income | | | | |
| Total general revenues | | | | |
| Change in net assets | | | | |
| Net assets at beginning of year | | | | |
| Net assets at end of year | | | | |

See accompanying notes to the basic financial statements.

| Net Governmental Activities | |
|--------------------------------|--------------------|
| <u>2009</u> | <u>2008</u> |
| (47,786) | (25,471) |
| (507,146) | (2,356,893) |
| <u>(337,420)</u> | <u>(386,080)</u> |
| <u>(892,352)</u> | <u>(2,768,444)</u> |
| 2,415,463 | 2,416,977 |
| <u>143,184</u> | <u>253,156</u> |
| <u>2,558,647</u> | <u>2,670,133</u> |
| 1,666,295 | (98,311) |
| <u>1,762,881</u> | <u>1,861,192</u> |
| <u>\$ 3,429,176</u> | <u>1,762,881</u> |

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SEAL BEACH REDEVELOPMENT AGENCY
Governmental Funds - Balance Sheet
June 30, 2009
(With comparative data for 2008)

| Assets | Riverfront Area | | | | Totals | |
|--|--------------------------|------------------|---------------|---------|-----------|-----------|
| | Special Revenue | Capital Projects | Debt Service | | | |
| | Low and Moderate Housing | Projects | Tax Increment | Bonds | 2009 | 2008 |
| | | | | | | |
| Assets: | | | | | | |
| Cash and investments (note 2) | \$ 1,705,003 | 4,126,304 | 600,048 | - | 6,431,355 | 5,060,570 |
| Receivables: | | | | | | |
| Accounts | 2,602 | - | - | - | 2,602 | 5,228 |
| Taxes | - | - | 13,089 | - | 13,089 | 2,222 |
| Loans (note 3) | 1,783,229 | - | - | - | 1,783,229 | 1,861,571 |
| Restricted cash and investments with fiscal agent (note 2) | - | - | - | 740,738 | 740,738 | 761,273 |
| Total assets | \$ 3,490,834 | 4,126,304 | 613,137 | 740,738 | 8,971,013 | 7,690,864 |
| <u>Liabilities and Fund Balances</u> | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 7,917 | 11,605 | 70 | - | 19,592 | 38,881 |
| Total liabilities | 7,917 | 11,605 | 70 | - | 19,592 | 38,881 |
| Fund balances: | | | | | | |
| Reserved for: | | | | | | |
| Low and moderate housing | 1,699,688 | - | - | - | 1,699,688 | 1,538,662 |
| Loans receivable | 1,783,229 | - | - | - | 1,783,229 | 1,861,571 |
| Unreserved: | | | | | | |
| Designated for: | | | | | | |
| Debt service | - | - | 613,067 | 740,738 | 1,353,805 | 1,363,542 |
| Capital projects | - | 4,114,699 | - | - | 4,114,699 | 2,888,208 |
| Total fund balances | 3,482,917 | 4,114,699 | 613,067 | 740,738 | 8,951,421 | 7,651,983 |
| Total liabilities and fund balances | \$ 3,490,834 | 4,126,304 | 613,137 | 740,738 | 8,971,013 | 7,690,864 |

See accompanying notes to the basic financial statements.

SEAL BEACH REDEVELOPMENT AGENCY
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds to
the Statement of Net Assets
June 30, 2009

| | |
|-------------------------------------|--------------|
| Fund balances of governmental funds | \$ 8,951,421 |
|-------------------------------------|--------------|

Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets, net of depreciation, have not been included
as financial resources in governmental fund activity.

| | |
|--------------------------|-------------|
| Capital assets | 2,358,826 |
| Accumulated depreciation | (1,272,026) |

Long term liabilities that have not been included in the governmental
fund activity.

| | |
|-----------------------------|-------------|
| Bonds payable | (6,410,000) |
| Other long-term liabilities | (90,856) |

Accrued interest payable for the current portion of interest due on
long term debt has not been reported in the governmental funds.

| |
|------------------|
| <u>(108,189)</u> |
|------------------|

| | |
|---------------------------------------|---------------------|
| Net assets of governmental activities | <u>\$ 3,429,176</u> |
|---------------------------------------|---------------------|

See accompanying notes to the basic financial statements.

SEAL BEACH REDEVELOPMENT AGENCY

Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2009
(With comparative data for 2008)

| | Riverfront Area | | | | | |
|---|--------------------------------|---------------------|------------------|-----------|-------------|-------------|
| | Special Revenue | Capital Projects | Debt Service | | | |
| | Low and Moderate Housing | Projects | Tax Increment | Bonds | Totals | |
| | | | | | 2009 | 2008 |
| Revenues: | | | | | | |
| Taxes and assessments | \$ 484,743 | - | 1,930,720 | - | 2,415,463 | 2,416,977 |
| Use of money and property | 39,327 | 63,304 | 16,848 | 23,705 | 143,184 | 253,156 |
| | | | | | | |
| Total revenues | 524,070 | 63,304 | 1,947,568 | 23,705 | 2,558,647 | 2,670,133 |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| General government | - | 41,610 | - | 6,176 | 47,786 | 25,471 |
| Community development | 441,386 | - | 19,570 | - | 460,956 | 581,002 |
| Debt service: | | | | | | |
| Principal | - | 15,653 | - | 390,000 | 405,653 | 384,454 |
| Interest and fiscal charges | - | 5,340 | - | 338,879 | 344,219 | 363,644 |
| | | | | | | |
| Total expenditures | 441,386 | 62,603 | 19,570 | 735,055 | 1,258,614 | 1,354,571 |
| | | | | | | |
| Excess (deficiency) of revenues over (under) expenditures | 82,684 | 701 | 1,927,998 | (711,350) | 1,300,033 | 1,315,562 |
| Other financing sources (uses): | | | | | | |
| Transfers in (note 10) | - | 1,226,385 | - | 690,815 | 1,917,200 | 1,946,776 |
| Transfers out (note 10) | - | - | (1,917,200) | - | (1,917,200) | (1,946,776) |
| Transfers to the City (note 10) | - | (595) | - | - | (595) | (1,730,336) |
| | | | | | | |
| Total other financing sources (uses) | - | 1,225,790 | (1,917,200) | 690,815 | (595) | (1,730,336) |
| | | | | | | |
| Net change in fund balances | 82,684 | 1,226,491 | 10,798 | (20,535) | 1,299,438 | (414,774) |
| Fund balances at beginning of year | 3,400,233 | 2,888,208 | 602,269 | 761,273 | 7,651,983 | 8,066,757 |
| | | | | | | |
| Fund balances at end of year | \$ 3,482,917 | 4,114,699 | 613,067 | 740,738 | 8,951,421 | 7,651,983 |

See accompanying notes to the basic financial statements.

SEAL BEACH REDEVELOPMENT AGENCY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year ended June 30, 2009

| | |
|---|--------------|
| Net changes in fund balances - total governmental funds | \$ 1,299,438 |
|---|--------------|

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

| | |
|----------------------|----------|
| Depreciation expense | (45,595) |
|----------------------|----------|

Repayment of bond principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | |
|--|---------|
| | 390,000 |
|--|---------|

Additions and repayments of other long-term liabilities are recorded as revenues and expenditures in the governmental funds, but increase or decrease long-term liabilities in the statement of net assets.

| | |
|--|--------|
| | 15,653 |
|--|--------|

The statement of net assets includes accrued interest on long term debt.

| | |
|--|-------|
| | 6,799 |
|--|-------|

| | |
|--|--|
| Changes in net assets of governmental activities | |
|--|--|

| | |
|--|--------------|
| | \$ 1,666,295 |
|--|--------------|

See accompanying notes to the basic financial statements.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(1) Summary of Significant Accounting Policies

(a) Organization and Tax Increment Financing

The Seal Beach Redevelopment Agency (Agency) is a blended component unit of a reporting entity which consists of the following primary government and component units:

Reporting Entity:

Primary Government:

- City of Seal Beach (City)

Component Units:

- Seal Beach Redevelopment Agency
- Seal Beach Public Financing Authority

The attached basic financial statements contain information relative only to the Seal Beach Redevelopment Agency as one component unit that is an integral part of the total reporting entity. They do not contain financial data relating to the other component units.

The Agency was established in 1967 pursuant to the California Community Redevelopment Laws.

The Agency's initial project area, the Riverfront Redevelopment Project, was established March 3, 1969, and amended in August 1974, December 1975, August 1981, February 1989, December 1994, and October 1997. The amended project area encompasses approximately 200 acres with the bulk of the project area located along the northwestern boundary of the City of Seal Beach. Work within the project area to date includes construction of a police facility, relocation of the City's maintenance yard, work on a major sewage treatment problem, development of park space, development of a library and senior citizen's facility, development of residential areas, and other similar projects.

The Agency's primary source of revenue, other than loans and advances from the City and bond proceeds, comes from property taxes, referred to in the accompanying financial statements as "taxes and assessments." Property taxes allocated to the Agency are computed in the following manner:

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

1. The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.
2. Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency; all taxes on the “frozen” assessed valuation of the property are allocated to the City and other districts.

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of and interest on debt. Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction elimination of present exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on debt.

(b) Basis of Accounting and Measurement Focus

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, service or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current available financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

(c) Activities in Major Funds

The Agency reports the following major governmental funds:

Riverfront Area Capital Projects Fund - Accounts for redevelopment project costs and administrative expenses and the source of funds for such costs.

Riverfront Area Low and Moderate Housing Special Revenue Fund - Accounts for low and moderate income housing expenditures.

Riverfront Area Tax Increment Debt Service Fund - Accounts for tax increment revenues, bond proceeds required to be set aside for future debt service and related interest income.

Riverfront Area Bonds Debt Service Fund - The fund is used to repay principal and interest on indebtedness of the Agency.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then to use unrestricted resources as they are needed.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(d) Cash and Investments

For financial reporting purposes, investments are adjusted to their fair value whenever the difference between fair value and the carrying amount is material. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

(e) Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other fund” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). There are no outstanding balances between funds at June 30, 2009.

All trade and property tax receivables are shown net of an allowance for uncollectible. Property tax revenue is recognized on the modified accrual basis, that is, in the fiscal year for which the taxes have been levied providing they become available.

(f) Restricted Assets

Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, funds have been restricted for future capital improvements by City resolution.

(g) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized.

Depreciation has been provided using the straight-line method over the estimated useful life of the asset in the government-wide financial statements. The Commission’s capital asset useful lives are as follows:

| | |
|---------------------------|-------------|
| Building and Improvements | 20-99 years |
| Machinery & Equipment | 5-25 years |

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(h) Long-term Obligations

In the government-wide financial statements, long-term debt is reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(i) Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(k) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's prior year financial statements, from which this selected financial data was derived.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(l) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the fund balance, is employed in the governmental funds. Encumbrances are reported as reservations of fund balances since they do not constitute as expenditures or liabilities. Encumbrances at year-end are re-appropriated in the following year.

(2) Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

| | |
|--|---------------------|
| Statement of Net Assets: | |
| Cash and investments | \$ 6,431,355 |
| Restricted: | |
| Cash and investments with fiscal agent | <u>740,738</u> |
| Total cash and investments | <u>\$ 7,172,093</u> |

Cash and investments as of June 30, 2009 consist of the following:

| | |
|----------------------------|---------------------|
| Investments | <u>\$ 7,172,093</u> |
| Total cash and investments | <u>\$ 7,172,093</u> |

Investments Authorized by California Government Code and the City's Investment Policy

The table below identifies the *investment types* that are authorized for the City by the California Government Code Section 53601 or the City's investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code (or the City's investment policy if more restrictive) that address *interest rate risk*, *credit risk*, and *concentration of credit risk*. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

| <u>Authorized Investment Type</u> | <u>Maximum* Maturity</u> | <u>Maximum* Percentage of Portfolio</u> | <u>Maximum* Investment in One Issuer</u> |
|---------------------------------------|------------------------------|---|--|
| U S Treasury Securities | 5 years | 100% | None |
| U S Agency Securities | 5 years | 100% | None |
| Bankers' Acceptance | 180 days | 40% | 30% |
| Commercial Paper | 180 days | 25% | None |
| Negotiable CDs | 5 years | 30% | None |
| Repurchase Agreements | 90 days | 100% | None |
| Medium Term Notes | 5 years | 30% | None |
| Money Market Mutual Funds | 89 days | 15% | None |
| Local Agency Investment Fund (LAIF) | None | 100% | None |

* Based on state law requirements or investment policy requirements whichever is more restrictive.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the *investment types* that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address *interest rate risk*, *credit risk*, and *concentration of credit risk*.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio</u> | <u>Maximum Investment in One Issuer</u> |
|---------------------------------------|-----------------------------|--|---|
| U S Treasury Securities | None | None | None |
| U S Agency Securities | None | None | None |
| Bankers' Acceptance | 180 days | None | 30% |
| Commercial Paper | 270 days | None | None |
| Money Market Mutual Funds | 89 days | None | None |
| Investment Contracts | 30 days | None | None |
| Local Agency Investment Fund | None | None | None |

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity.

| <u>Investment Type</u> | <u>Total</u> | <u>Remaining Maturity (in Months)</u> | | |
|------------------------|---------------------|---------------------------------------|----------------------------|----------------------------|
| | | <u>12 Months or Less</u> | <u>13 to 24 Months</u> | <u>25 to 60 Months</u> |
| State investment pool | \$ 6,431,355 | 6,431,355 | - | - |
| Held by Fiscal Agent: | | | | |
| Money Market Mutual | | | | |
| Funds | <u>740,738</u> | <u>740,738</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 7,172,093</u> | <u>7,172,093</u> | <u>-</u> | <u>-</u> |

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government code or the City's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type:

| <u>Investment Type</u> | <u>Minimum Legal Rating</u> | <u>Total</u> | <u>Remaining as of Year End</u> | |
|------------------------|-------------------------------------|---------------------|---------------------------------|------------------|
| | | | <u>AA</u> | <u>Unrated</u> |
| State investment pool | N/A | \$ 6,431,355 | - | 6,431,355 |
| Held by Fiscal Agent: | | | | |
| Money Market | N/A | | | |
| Mutual Funds | | <u>740,738</u> | <u>-</u> | <u>740,738</u> |
| Total | | <u>\$ 7,172,093</u> | <u>-</u> | <u>7,172,093</u> |

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Concentration of Credit Risk

The investment policy of the City contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The City had no investment contracts in any one issuer (other than U.S. Treasury securities, mutual funds and external investment pools) that represent 5% or more of total City investments.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the City. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured City deposits.

Investments held by a bond trustee are selected under the terms of the applicable trust agreement. The trustee acquires the investment and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Loans Receivable

Loans receivable consist of the following at June 30, 2009:

| | |
|---|---------------------|
| Riverfront Project Area Capital Projects: | |
| Low and Moderate Housing Fund: | |
| Seal Beach Trailer Park | \$ 852,517 |
| Various rehabilitation loans | <u>930,712</u> |
| Total | <u>\$ 1,783,229</u> |

The loans are long-term in nature and all reserved in the fund financial statements.

(4) Property Taxes

Under California Law, property taxes are assessed and collected by the counties up to 1% of the assessed value, plus other increases approved by the voters. The property taxes are recorded initially in a pool, and are then allocated to the cities based on complex formulas. Accordingly, the City of Seal Beach accrues only those taxes that are received from the County within sixty days after year-end.

| | |
|------------------|---------------------------|
| Lien date | January 1 |
| Levy date | July 1 |
| Due dates | November 1 and February 1 |
| Collection dates | December 10 and April 10 |

The Agency's primary source of revenue comes from property taxes. Property taxes allocated to the Agency are computed in the following manner:

- (a) The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.
- (b) Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts.
- (c) Property taxes allocated to the Agency above certain thresholds are subject to statutory pass-through requirements to the city and other districts.

The Agency has no power to levy and collect taxes and any legislative property tax shift might reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on debt. Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on debt.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(5) Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

| | <u>Balances at June 30, 2008</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balances at June 30, 2009</u> |
|------------------------------------|--------------------------------------|------------------|------------------|--------------------------------------|
| Building and improvements | \$ 1,890,850 | - | - | 1,890,850 |
| Equipment and vehicles | <u>64,784</u> | <u>-</u> | <u>-</u> | <u>64,784</u> |
| Total cost of depreciable assets | <u>1,955,634</u> | <u>-</u> | <u>-</u> | <u>1,955,634</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | (1,200,500) | (39,117) | - | (1,239,617) |
| Equipment and vehicles | <u>(25,931)</u> | <u>(6,478)</u> | <u>-</u> | <u>(32,409)</u> |
| Total accumulated depreciation | <u>(1,226,431)</u> | <u>(45,595)</u> | <u>-</u> | <u>(1,272,026)</u> |
| Net depreciable assets | 729,203 | (45,595) | - | 683,608 |
| Capital assets not depreciated: | | | | |
| Land | <u>403,192</u> | <u>-</u> | <u>-</u> | <u>403,192</u> |
| Capital assets, net | <u>\$ 1,132,395</u> | <u>(45,595)</u> | <u>-</u> | <u>1,086,800</u> |

Depreciation expense was charged in the following function of the Statement of Activities:

Community development \$ 45,595

(6) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2009 was as follows:

| | <u>Balance June 30, 2008</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance June 30, 2009</u> | <u>Due Within One year</u> |
|---------------------|----------------------------------|------------------|------------------|----------------------------------|--------------------------------|
| Capital Improvement | | | | | |
| Lease | \$ 106,509 | - | (15,653) | 90,856 | 17,081 |
| 2000 Tax Allocation | | | | | |
| Bonds Series A | 6,300,000 | - | (355,000) | 5,945,000 | 370,000 |
| 2000 Tax Allocation | | | | | |
| Bonds Series B | <u>500,000</u> | <u>-</u> | <u>(35,000)</u> | <u>465,000</u> | <u>35,000</u> |
| Total | <u>\$ 6,906,509</u> | <u>-</u> | <u>(405,653)</u> | <u>6,500,856</u> | <u>422,081</u> |

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

Capital Improvement Lease

The Agency is obligated for a portion of Capital Improvement Leases for improvements related to City facilities that the Agency operates. The balance of this capital lease obligation is \$90,856.

| <u>Year Ended June 30,</u> | <u>Capital Improvement Lease</u> | |
|----------------------------|----------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2010 | \$ 17,081 | 4,484 |
| 2011 | 18,763 | 3,546 |
| 2012 | 20,572 | 2,516 |
| 2013 | 22,516 | 1,388 |
| 2014 | <u>11,924</u> | <u>238</u> |
| Total | <u>\$ 90,856</u> | <u>12,172</u> |

Tax Allocation Bonds

On December 20, 2000, the Agency issued 2000 Tax Allocation Refunding Bonds for the Riverfront Redevelopment Project in the amounts of \$8,520,000 and \$685,000 for Series A and B, respectively. Interest rate on the bonds varies from 4% to 5.375%. The Agency used the proceeds of Series A Bonds to finance the refunding of the 1986 Tax Allocation Bonds and \$3,715,000 of 1991 Tax Allocation Bonds. The Series B Bonds were used to pay bond issuance costs and finance certain redevelopment activities of the Agency.

The Series A Bonds are payable exclusively from Tax revenues and certain funds and accounts held under the indenture. Series B Bonds are subordinate to the Series A Bonds and are to be paid exclusively from Surplus Tax Revenues and certain funds and accounts held under the indenture. The balances in the Series A and B bonds at June 30, 2009 were \$5,945,000 and \$465,000, respectively.

The following schedule illustrates the debt service requirements to maturity for long-term debt outstanding as of June 30, 2009.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

| <u>Year Ended June 30,</u> | <u>2000 Tax Allocation Refunding Bonds, Series A</u> | | <u>2000 Subordinate Tax Allocation Bonds, Series B</u> | |
|----------------------------|--|------------------|--|-----------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2010 | \$ 370,000 | 292,933 | 35,000 | 25,122 |
| 2011 | 390,000 | 272,983 | 40,000 | 23,200 |
| 2012 | 410,000 | 253,315 | 40,000 | 21,150 |
| 2013 | 430,000 | 233,780 | 40,000 | 18,975 |
| 2014 | 450,000 | 212,875 | 45,000 | 16,531 |
| 2015-2019 | 2,605,000 | 694,948 | 265,000 | 40,109 |
| 2020-2024 | <u>1,290,000</u> | <u>128,999</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 5,945,000</u> | <u>2,089,833</u> | <u>465,000</u> | <u>145,087</u> |

(7) Pledged Revenue

The Agency has debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment:

| <u>Description of Pledged Revenue</u> | <u>Annual Amount of Revenue</u> | <u>Annual Debt Service Payments (of all debt secured by this revenue)</u> | <u>Debt Service as a Percentage of Pledged Revenue</u> |
|--|-------------------------------------|---|--|
| Tax increment – Riverfront Project Area | \$ 1,930,720 | 778,879 | 40.3% |

(8) Insurance Coverage

Insurance coverage has been obtained by the City of Seal Beach for the City and all authorities under its control. Information related to the Agency's insurance coverage can be obtained by contacting the City.

SEAL BEACH REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(9) Low and Moderate Income Housing Fund Excess Surplus

Section 33334.12 (g)(1) of the Health and Safety Code defines Excess/Surplus applicable to Low and Moderate Income Housing Fund. This section allows redevelopment agencies to maintain only a certain amount of monies within these funds without incurring penalties. The amount which can be retained is specified by this section as “any unexpended and unencumbered amount in an Agency’s Low and Moderate Income Housing Fund that exceeds the greater of one million dollars (\$1,000,000) or the aggregate amount deposited into the Low and Moderate Income Housing Fund pursuant to Sections 33334.3 and 33334.6 during the Agency’s preceding four fiscal years”.

A computation of the requirements of this section of the code has indicated that as of July 1, 2008, there is an excess/surplus of \$97,900. The Agency has plans in place to expend these funds in future years.

(10) Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2009 is as follows:

| | <u>Transfers Out Riverfront Area</u> | |
|--------------------|--------------------------------------|-----------------|
| | <u>Debt Service</u> | |
| | <u>Tax</u> | <u>Capital</u> |
| | <u>Increment</u> | <u>Projects</u> |
| Transfers In: | | |
| Riverfront Area: | | |
| Capital Projects | \$ 1,226,385 | - |
| Bonds Debt Service | 690,815 | - |
| Transfer to City | <u>-</u> | <u>595</u> |
| Total | <u>\$ 1,917,200</u> | <u>595</u> |

Transfers were made to move funds from Tax Increment to fund Capital Projects, and from Tax Increment to cover debt service payments in the Bonds fund.

(11) Commitments and Contingencies

When adopting its budget for fiscal year 2009-10, the State of California reflected in that budget a shift of a significant portion of tax increment revenue from redevelopment agencies to school districts for fiscal years 2009-10 and 2010-11. The California Redevelopment Association has filed a lawsuit challenging the legality of this tax shift. The outcome of that lawsuit is not certain at this time.



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Board of Directors
Seal Beach Redevelopment Agency
Seal Beach, California

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the Seal Beach Redevelopment Agency (Agency), a component unit of the City of Seal Beach, California as of and for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Seal Beach Redevelopment Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Agency's ability to initiate, Board authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

Seal Beach Redevelopment Agency
Page Two

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

This report is intended for the information of the Board of Directors, management and others within the Seal Beach Redevelopment Agency and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
December 18, 2009